Course Syllabus

Course Information

MAS 6V06: 501 and
Special Topics in Finance: Behavioral Finance
Spring 2010
Tuesdays, 7pm-10pm
GR 3.606

Professor Contact Information

Rachel Croson
972-883-6016 (assistant: 6015)
crosonr@utdallas.edu
GR 2.514 and SM 4.231
Office Hours Tuesdays 5pm-7pm (GR 2.514)

Course Pre-requisites, Co-requisites, and/or Other Restrictions

Basic finance (FIN 6301 or equivalent)

Course Description

This course describes how individuals and firms make financial decisions, and how those decisions might deviate from those predicted by traditional financial or economic theory. Students explore the existence of psychological biases in financial decision-making, and examine the impacts of these biases in financial markets and other financial settings. The course examines how the insights of behavioral finance complements the traditional finance paradigm.

Student Learning Objectives/Outcomes

Students will gain an understanding of how individuals actually make financial decisions (descriptive) and guidance on how to improve financial decision making (prescriptive) in themselves and others.
Required Textbooks and Materials


Suggested Course Materials (Required for PhD students)

Individual articles as described below.

Assignments & Academic Calendar

This class includes a wide variety of students, from undergraduates to PhDs. The chapters described below from Pompian and Belsky & Gilovich are required for undergraduates and Masters’ students (including MBAs). PhD students are expected to do both the required and the suggested readings.

**Jan 12: Introduction and Logistics. Pompian Chapter 1, Belsky & Gilovich Introduction**


**History of Behavioral Finance. Pompian Chapter 2**


**Jan 19: Overconfidence. Pompian Chapter 4, Belsky & Gilovich Chapter 6**


**Representativeness. Pompian Chapter 5**

Jan 26: Anchoring and Adjustment. Pompian Chapter 6, Belsky & Gilovich Chapter 5


Cognitive Dissonance. Pompian Chapter 7


Feb 2: Availability. Pompian Chapter 8


Attribution. Pompian Chapter 9


Feb 9: Illusion of Control. Pompian Chapter 10, Belsky & Gilovich pp. 166-167


Conservatism. Pompian Chapter 11


Feb 16: Ambiguity. Pompian Chapter 12


Endowment. Pompian Chapter 13, Belsky & Gilovich Chapter 3


Feb 23: Self-Control. Pompian Chapter 14


Information Cascades. Belsky & Gilovich, Chapter 7


Mar 2: Optimism (Competence). Pompian Chapter 15


Mental Accounting. Pompian Chapter 16, Belsky & Gilovich Chapter 1


Mar 9: Confirmation. Pompian Chapter 17, Belsky & Gilovich pp. 144-145


Hindsight. Pompian Chapter 18


Mar 16: Spring Break

Mar 23: Guest Speaker: Eric Gold

Mar 30: Loss Aversion (Disposition Effect). Pompian Chapter 19, Belsky & Gilovich Chapter 2


Money Illusion: Belsky & Gilovich Chapter 4

Apr 6: Recency. Pompian Chapter 20


Regret. Pompian Chapter 21, Belsky & Gilovich pp. 97-100


Apr 13: Framing. Pompian Chapter 22


Status Quo. Pompian Chapter 23, Belsky & Gilovich Chapter pp. 91-97


Apr 20: Conclusion and Review session. Belsky & Gilovich Conclusion


Apr 27: Final Exam in-class

May 12: Team Project due (5pm)
Grading Policy

35% Final Exam
In-class April 27th. Will be multiple choice and short-answer, and will cover material from the entire course. Closed-book, no cheat-sheets, computers or calculators. Exams of all students will be graded together.

35% Team Project
Due May 12, at 5pm

For undergraduate and masters’ students:
Teams of up to 3 students will prepare a ‘case study’ of a particular financial regularity, situation or decision, using material from the course to explain and predict observed behavior. This assignment will take the form of a white paper, approximately 10-15 pages (12-point font, double-spaced), including references. The papers will be evaluated on the relevance of the financial situation, and the use of concepts from the course in analyzing it.

For PhD students
Teams of up to 3 students will prepare a comprehensive literature review on an aspect of behavioral finance. The paper should cover empirical evidence of a given anomaly and describe the psychological regularity used to explain the anomaly. Particular attention should also be given to experimental or other evidence for this mechanism, as well as arguing why the psychological bias successfully aggregates and translates into the market setting (is not arbitraged away).

I will separately evaluate projects of undergraduate/masters’ students and PhD students.

15% Weekly Assignments
Each week in class each student will turn in a short (one-paragraph to one-page) description of a financial situation and a discussion of the impact of one of the biases covered in that session on the situation. The situation can be personal, professional, or something from current events. At the end of the semester, these short write-ups can be used to gather ideas for the final team project. Assignments from one hour up to one day late will receive half-credit, assignments later than one day will earn zero credit. These weekly assignments will not be returned.

15% Class Participation and Exercises
While I will not be grading on attendance per se, students will be graded on their class participation and participation in in-class exercises designed to illustrate the biases discussed. Students with frequent absences can expect a reduced grade in this area.

Course & Instructor Policies

Due to the size of the course, I cannot offer a make-up exam. If you cannot be in class on the day of the exam, you should seriously consider either dropping or simply auditing the course. The exam may include some extra-credit questions, but there will be no specific extra-credit assignments. Class attendance will be reflected in the participation grade.

I expect professional classroom behavior. This includes the silencing of cell phones, no extracurricular reading, doing homework or online surfing during class. Of course, any activities which disturb the learning experience of the other students, including sidebar conversations, note-passing, etc. will not be tolerated. Students are welcome to bring drinks into class, but no eating, please.
This course involves a substantial amount of writing (weekly assignments, team projects). I expect written assignments to be well-structured and to be written in acceptable (professional) English. You should feel free to ask your classmates to proofread your assignments, but note that they are expected to contain your own ideas. Assignments and final projects which are difficult to understand or contain excessive numerous spelling and grammatical errors will be marked down accordingly.

Finally, I am extremely concerned by the growing frequency of plagiarism on college campuses. I will thus be diligent about checking team projects for originality. I use turnitin.com (which is over 90% effective), as well as other electronic and physical tools to identify plagiarism, and I intend to actively pursue scholastic dishonesty cases in situations of suspected plagiarism. If you have any doubts or questions about whether and how to attribute another author’s ideas or words, please feel free to contact me before submitting your assignment or project and I will be happy to offer guidance and assistance. You can also find resources about plagiarism at the UTD library http://www.utdallas.edu/~tad035000/Plagiarism%20Tutorial/Plagiarism.htm.

---

**Technical Support**

If you experience any problems with your UTD account you may send an email to assist@utdallas.edu or call the UTD Computer Helpdesk at 972-883-2911.

---

**Field Trip Policies**

**Off-campus Instruction and Course Activities**

Off-campus, out-of-state, and foreign instruction and activities are subject to state law and University policies and procedures regarding travel and risk-related activities. Information regarding these rules and regulations may be found at the website address http://www.utdallas.edu/BusinessAffairs/Travel_Risk_Activities.htm. Additional information is available from the office of the school dean.

---

**Student Conduct & Discipline**

The University of Texas System and The University of Texas at Dallas have rules and regulations for the orderly and efficient conduct of their business. It is the responsibility of each student and each student organization to be knowledgeable about the rules and regulations which govern student conduct and activities. General information on student conduct and discipline is contained in the UTD printed publication, *A to Z Guide*, which is provided to all registered students each academic year.

The University of Texas at Dallas administers student discipline within the procedures of recognized and established due process. Procedures are defined and described in the *Rules and Regulations, Series 50000, Board of Regents, The University of Texas System*, and in Title V, Rules on Student Services and Activities of the university’s *Handbook of Operating Procedures*. Copies of these rules and regulations are available to students in the Office of the Dean of Students, where staff members are available to assist students in interpreting the rules and regulations (SU 1.602, 972/883-6391) and online at http://www.utdallas.edu/judicialaffairs/UTDJudicialAffairs-HOPV.html
A student at the university neither loses the rights nor escapes the responsibilities of citizenship. He or she is expected to obey federal, state, and local laws as well as the Regents’ Rules, university regulations, and administrative rules. Students are subject to discipline for violating the standards of conduct whether such conduct takes place on or off campus, or whether civil or criminal penalties are also imposed for such conduct.

---

**Academic Integrity**

The faculty expects from its students a high level of responsibility and academic honesty. Because the value of an academic degree depends upon the absolute integrity of the work done by the student for that degree, it is imperative that a student demonstrate a high standard of individual honor in his or her scholastic work.

Scholastic Dishonesty, any student who commits an act of scholastic dishonesty is subject to discipline. Scholastic dishonesty includes but is not limited to cheating, plagiarism, collusion, the submission for credit of any work or materials that are attributable in whole or in part to another person, taking an examination for another person, any act designed to give unfair advantage to a student or the attempt to commit such acts.

Plagiarism, especially from the web, from portions of papers for other classes, and from any other source is unacceptable and will be dealt with under the university’s policy on plagiarism (see general catalog for details). This course will use the resources of turnitin.com, which searches the web for possible plagiarism and is over 90% effective.

---

**Copyright Notice**

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted materials, including music and software. Copying, displaying, reproducing, or distributing copyrighted works may infringe the copyright owner’s rights and such infringement is subject to appropriate disciplinary action as well as criminal penalties provided by federal law. Usage of such material is only appropriate when that usage constitutes “fair use” under the Copyright Act. As a UT Dallas student, you are required to follow the institution’s copyright policy (Policy Memorandum 84-I.3-46). For more information about the fair use exemption, see [http://www.utsystem.edu/ogc/intellectualproperty/copypol2.htm](http://www.utsystem.edu/ogc/intellectualproperty/copypol2.htm)

---

**Email Use**

The University of Texas at Dallas recognizes the value and efficiency of communication between faculty/staff and students through electronic mail. At the same time, email raises some issues concerning security and the identity of each individual in an email exchange. The university encourages all official student email correspondence be sent only to a student’s U.T. Dallas email address and that faculty and staff consider email from students official only if it originates from a UTD student account. This allows the university to maintain a high degree of confidence in the identity of all individual corresponding and the security of the transmitted information. UTD furnishes each student with a free email account that is to be used in all communication with university personnel. The Department of Information Resources at U.T. Dallas provides a method for students to have their U.T. Dallas mail forwarded to other accounts.
Withdrawal from Class

The administration of this institution has set deadlines for withdrawal of any college-level courses. These dates and times are published in that semester's course catalog. Administration procedures must be followed. It is the student's responsibility to handle withdrawal requirements from any class. In other words, I cannot drop or withdraw any student. You must do the proper paperwork to ensure that you will not receive a final grade of "F" in a course if you choose not to attend the class once you are enrolled.

Student Grievance Procedures

Procedures for student grievances are found in Title V, Rules on Student Services and Activities, of the university’s Handbook of Operating Procedures.

In attempting to resolve any student grievance regarding grades, evaluations, or other fulfillments of academic responsibility, it is the obligation of the student first to make a serious effort to resolve the matter with the instructor, supervisor, administrator, or committee with whom the grievance originates (hereafter called “the respondent”). Individual faculty members retain primary responsibility for assigning grades and evaluations. If the matter cannot be resolved at that level, the grievance must be submitted in writing to the respondent with a copy of the respondent’s School Dean. If the matter is not resolved by the written response provided by the respondent, the student may submit a written appeal to the School Dean. If the grievance is not resolved by the School Dean’s decision, the student may make a written appeal to the Dean of Graduate or Undergraduate Education, and the dean will appoint and convene an Academic Appeals Panel. The decision of the Academic Appeals Panel is final. The results of the academic appeals process will be distributed to all involved parties.

Incomplete Grade Policy

As per university policy, incomplete grades will be granted only for work unavoidably missed at the semester’s end and only if 70% of the course work has been completed. An incomplete grade must be resolved within eight (8) weeks from the first day of the subsequent long semester. If the required work to complete the course and to remove the incomplete grade is not submitted by the specified deadline, the incomplete grade is changed automatically to a grade of F.

Disability Services

The goal of Disability Services is to provide students with disabilities educational opportunities equal to those of their non-disabled peers. Disability Services is located in room 1.610 in the Student Union. Office hours are Monday and Thursday, 8:30 a.m. to 6:30 p.m.; Tuesday and Wednesday, 8:30 a.m. to 7:30 p.m.; and Friday, 8:30 a.m. to 5:30 p.m.
The contact information for the Office of Disability Services is:
The University of Texas at Dallas, SU 22
PO Box 830688
Richardson, Texas 75083-0688
(972) 883-2098 (voice or TTY)
disabilityservice@utdallas.edu

If you anticipate issues related to the format or requirements of this course, please meet with the Coordinator of Disability Services. The Coordinator is available to discuss ways to ensure your full participation in the course. If you determine that formal, disability-related accommodations are necessary, it is very important that you be registered with Disability Services to notify them of your eligibility for reasonable accommodations. Disability Services can then plan how best to coordinate your accommodations.

It is the student’s responsibility to notify his or her professors of the need for such an accommodation. Disability Services provides students with letters to present to faculty members to verify that the student has a disability and needs accommodations. Individuals requiring special accommodation should contact the professor after class or during office hours.

---

**Religious Holy Days**

The University of Texas at Dallas will excuse a student from class or other required activities for the travel to and observance of a religious holy day for a religion whose places of worship are exempt from property tax under Section 11.20, Tax Code, Texas Code Annotated.

The student is encouraged to notify the instructor or activity sponsor as soon as possible regarding the absence, preferably in advance of the assignment. The student, so excused, will be allowed to take the exam or complete the assignment within a reasonable time after the absence: a period equal to the length of the absence, up to a maximum of one week. A student who notifies the instructor and completes any missed exam or assignment may not be penalized for the absence. A student who fails to complete the exam or assignment within the prescribed period may receive a failing grade for that exam or assignment.

If a student or an instructor disagrees about the nature of the absence [i.e., for the purpose of observing a religious holy day] or if there is similar disagreement about whether the student has been given a reasonable time to complete any missed assignments or examinations, either the student or the instructor may request a ruling from the chief executive officer of the institution, or his or her designee. The chief executive officer or designee must take into account the legislative intent of TEC 51.911(b), and the student and instructor will abide by the decision of the chief executive officer or designee.

---

*These descriptions and timelines are subject to change at the discretion of the Professor.*